

**Newaygo County
Mental Health Board**

**Financial Statements
September 30, 2005**



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Newaygo County Mental Health Board	County Newaygo
Audit Date 9/30/05	Opinion Date 12/13/05	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

MAR 28 2006

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name)

ROSLUND, PRESTAGE AND COMPANY, PC

Street Address
308 GRATIOT AVENUE

City
ALMA

State
MI

ZIP
48801

Accountant Signature

Roslund, Prestage & Company, P.C.

Date
3/27/06

Newaygo County Mental Health Board
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INDEPENDENT AUDITOR'S REPORT

Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund of Newaygo County Mental Health Board (the Board), as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the Board as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2005, on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages I-VII, and budgetary comparison information on pages 28-29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 13, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Newaygo County Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

The management of Newaygo County Mental Health (NCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2004/2005. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. NCMH, which was created as a Mental Health Authority on January 1, 1999 by action of the Newaygo County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Ionia County Community Mental Health. This affiliation is informally called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with NCMH to provide Medicaid covered services for the County of Newaygo for the current fiscal year. NCMH has approximately 8000 total Medicaid covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Newaygo County Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Newaygo County Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For NCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2005 and 2004.

Summary of Net Assets As of September 30, 2005 and 2004 (In dollars)

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	1,797,355	2,426,851
Restricted Assets	1,336,910	1,436,747
Capital Assets	<u>127,392</u>	<u>178,318</u>
Total Assets	3,261,657	4,041,916
Liabilities		
Current Liabilities	715,157	1,288,014
Noncurrent Liabilities – Comp. Absences	<u>145,223</u>	<u>141,812</u>
Total Liabilities	860,380	1,429,826
Net Assets		
Investment in capital assets	127,392	178,318
Reserved for Michigan Families	506,627	613,939
Restricted for risk management	77,514	75,685
Unrestricted	<u>1,689,744</u>	<u>1,744,148</u>
Total Net Assets	\$ 2,401,277	\$ 2,612,090

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$ 1,082,198 a decrease of \$ 56,639, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$1,336,910 have decreased by \$99,837.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2005, capital assets having an original book value of \$508,523 were recorded, net of restated accumulated depreciation of \$381,131, for a beginning net book value of \$127,392.

As of year-end, the net book value of capital assets was 25% of the original book value compared to 29% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested annual leave obligations.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$ 1,689,744, a decrease of \$ 54,404.

Unrestricted net assets were 70% of total assets, up from 67% from the prior year.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2005 and 2004.

Summary of Activities

As of September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue		
Medicaid specialty supports and services	5,156,523	4,458,096
State general fund priority populations	1,331,024	1,284,901
Grants and earned contracts	384,944	387,283
County appropriation	220,000	220,000
Interest income	49,949	24,142
Other local income	<u>57,410</u>	<u>50,663</u>
Total Revenue	7,199,850	6,425,085
Expense		
Personnel expense	3,847,693	3,440,224
Operating expense	<u>3,402,283</u>	<u>3,021,492</u>
Total Expense	7,249,976	6,461,716
Excess of Revenue over Expense	(50,126)	(19,848)

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2004

Excess of revenue over expenses from activities for the current year was -50,126, or less than 1% of revenue. This is an increase of \$30,738 from the prior year deficit of \$19,418.

Revenue for the year was \$7,127,660, an increase of \$755,730 or 12% from the prior year.

Medicaid specialty supports and services revenue of \$5,156,523 represents 72% of total revenue and increased \$698,427 or 15.6% compared to the prior year. Unspent Medicaid subcontract funds of \$142,412 are not revenue and are shown as amounts due to the PIHP.

State general fund priority population revenue (formula funding) of \$1,150,967 represents 15.9% of total revenue and increased \$105,549, or 10% compared to the prior year. Funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$31,968 of prior year deferred revenue. Unspent current year funds of \$46,926 are not included in current revenue. This amount is shown as deferred revenue available for next year.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. The county appropriation was unchanged.

Total expense of \$ 7,249,976 has increased \$ 788,260 or 11.9% compared to the prior year. Personnel expense is 53.0% of total expense and has increased \$ 315,030 or 8.91%. Operating expense is 47.0% of total expense and has increased \$ 325,461 or 10.57%.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

ACTUAL TO BUDGET COMPARISON

The fiscal year 2004/2005 budget adopted by the governing board was \$ 7,291,526 of revenues and \$7,291,526 of expenses. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenue	\$7,215,572	\$7,602,575	\$387,003
Expenses	\$7,373,010	\$7,469,110	\$96,100

The comparison of fiscal year 2004/2005 as compared to fiscal year 2003/2004 is presented below.

	2004/2005	2003/2004	Variance
Revenue	\$7,215,572	\$6,444,120	\$771,452
Expenses	\$7,373,010	\$6,606,485	\$766,525

There are several reasons that account for the variance both between fiscal years and between current year actual and budget. NCMH is no longer able to retain up to 5% of its unused Medicaid funds, as the Medicaid contract is now held by CEI (the PIHP). Medicaid revenues and expenditures reflect actual Medicaid retained by NCMH and expenditures incurred by NCMH. These amounts do not include potential Medicaid savings or monies excess of 5% of Medicaid funds that were returned to the PIHP. In addition, during FY05, NCMH began to "ramp up" its services to ensure an equal benefit across the affiliation no later than October 1, 2005. This ramp up involved the hiring of several staff, and the securing of several contracts for services.

FUTURE OUTLOOK

For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period ended September 30, 2005. The new funding formula for the affiliation was calculated and agreed upon during FY05. Newaygo County Mental Health, under the rebasing formula, received a significant increase in funding for 2005/2006. In anticipation of the funding changes for the 2006 fiscal year programs and services are being continually reviewed and revised.

The State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good.

Management expects State revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$1,546,917	\$2,069,147
Accounts Receivable, Net	114,133	205,567
Due from Other Governmental Units	36,643	77,499
Prepaid Expenses	99,662	74,638
Total Current Assets	1,797,355	2,426,851
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	1,336,910	1,436,747
Capital Assets - Depreciable, Net	127,392	178,318
Total Noncurrent Assets	1,464,302	1,615,065
Total Assets	3,261,657	4,041,916
Liabilities		
Current Liabilities		
Accounts Payable	303,920	252,823
Deferred Revenue	46,926	31,968
Due to Other Governmental Units	230,338	892,087
Accrued Wages and Other Payroll Liabilities	133,973	111,136
Total Current Liabilities	715,157	1,288,014
Noncurrent Liabilities		
Compensated Absences	145,223	141,812
Total Noncurrent Liabilities	145,223	141,812
Net Assets		
Invested in Capital Assets, Net of Related Debt	127,392	178,318
Reserved For Michigan Families Program	505,627	613,939
Reserved For Risk Management	77,514	75,685
Unreserved and Undesignated	1,690,744	1,744,148
Total Net Assets	\$2,401,277	\$2,612,090

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue And Changes In Net Assets	
		Charges for Services	Operating Grants and Contributions	2005	2004
Governmental Activities					
Health & Welfare - Mental Health	<u>\$7,427,347</u>	<u>\$5,211,354</u>	<u>\$1,947,548</u>	(\$268,445)	(\$276,861)
General Revenues					
Unrestricted Investment Earnings				40,948	24,142
Restricted Investment Earnings				<u>17,551</u>	<u>11,194</u>
Total General Revenues and Contributions				58,499	35,336
Transfers To Affiliates				<u>-</u>	<u>(195,355)</u>
Change in Net Assets				(209,946)	(436,880)
Net Assets - Beginning Of Year				2,612,090	3,048,161
Prior Period Adjustment				<u>(867)</u>	<u>809</u>
Net Assets - End Of Year				<u>\$2,401,277</u>	<u>\$2,612,090</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

NEWAYGO COUNTY MENTAL HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

	MAJOR FUNDS		Total Governmental Funds	
	General Fund	Michigan Families	2005	2004
Assets				
Cash and cash equivalents - unrestricted	\$1,546,917	-	\$1,546,917	\$2,069,147
Accounts receivable, net	114,133	-	114,133	205,567
Due from other governmental units	36,643	-	36,643	77,499
Prepaid expenses	99,662	-	99,662	74,638
Cash and cash equivalents - restricted	752,769	\$506,627	1,259,396	1,361,062
Total Assets	\$2,550,124	\$506,627	\$3,056,751	\$3,787,913
Liabilities				
Accounts payable	\$303,920	-	\$303,920	\$252,823
Deferred revenue	46,926	-	46,926	31,968
Accrued wages and other payroll liabilities	133,973	-	133,973	111,136
Due to other governmental units	230,338	-	230,338	892,087
Total liabilities	715,157	-	715,157	1,288,014
Fund balances				
Reserved for Michigan families program	-	\$506,627	506,627	613,939
Reserved for prepaid expenses	99,663	-	99,663	74,638
Unreserved	1,735,304	-	1,735,304	1,811,322
Total fund balances	1,834,967	506,627	2,341,594	2,499,899
Total liabilities and fund balances	\$2,550,124	\$506,627	\$3,056,751	\$3,787,913

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds \$2,341,594

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	508,523
Deduct: accumulated depreciation	(381,131)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	77,514
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Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: compensated absences	<u>(145,223)</u>
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Net assets of governmental activities	<u><u>\$2,401,277</u></u>
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The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

	General Fund	Michigan Families	Total Governmental Funds	
			2005	2004
Revenues				
State Grants				
Department of Community Health Contract	\$1,150,967	-	\$1,150,967	\$1,045,418
Adult Benefit Waiver	171,042	-	171,042	230,512
Michigan Families Program	-	-	-	9,516
MI Child	9,015	-	9,015	8,971
Title XX	2,579	-	2,579	2,579
Total State Grants	1,333,603	-	1,333,603	1,296,996
Federal Grants				
Mental Health Block Grant	18,257	-	18,257	3,236
Alzheimer's Grant	60,450	-	60,450	60,450
PAS / ARR Grant	13,590	-	13,590	11,649
Total Federal Grants	92,297	-	92,297	75,335
Contributions - Local Units				
County Appropriations	220,000	-	220,000	220,000
Charges for Services				
Medicaid - DCH Contract	5,053,205	-	5,053,205	4,360,685
Medicaid - Other	103,318	-	103,318	97,411
Client and Third Party Pay	54,831	-	54,831	48,084
Total Charges for Services	5,211,354	-	5,211,354	4,506,180
Interest and Rents	49,949	\$15,722	65,671	33,661
Other Revenue	292,647	-	292,647	311,948
Total Revenues	7,199,850	15,722	7,215,572	6,444,120

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Expenditures	General Fund	Michigan Families	Total Governmental Funds	
			2005	2004
Health & Welfare - Mental Health				
Personnel Expenditures	\$3,847,693	\$80,727	\$3,928,420	\$3,532,663
Operating Expenditures	3,402,283	42,307	3,444,590	3,076,822
Total Expenditures	7,249,976	123,034	7,373,010	6,609,485
Revenues Over (Under) Expenditures	(50,126)	(107,312)	(157,438)	(165,365)
Other Financing Sources (Uses)				
Operating Transfers In (Out) - Internal Service Fund	-	-	-	16,783
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(50,126)	(107,312)	(157,438)	(148,582)
Fund Balance, October 1	1,885,960	613,939	2,499,899	2,647,672
Prior Period Adjustment	(867)	-	(867)	809
Fund Balance, September 30	<u>\$1,834,967</u>	<u>\$506,627</u>	<u>\$2,341,594</u>	<u>\$2,499,899</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds (157,438)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Deduct: depreciation expense (50,925)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add: interest income from governmental internal service fund 1,829

Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Less: increase in accrual for compensated absences (3,412)

Change in net assets of governmental activities

(209,946)

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005 AND 2004

	Internal Service Funds	
	2005	2004
Assets		
Cash and cash equivalents	<u>\$77,514</u>	<u>\$75,685</u>
Net Assets		
Restricted	<u>\$77,514</u>	<u>\$75,685</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Funds	
	2005	2004
Non-Operating Revenues (Expense)		
Interest Income	\$1,829	\$1,675
Operating Transfers		
Operating Transfers Out - Abatement, General Fund	-	(16,783)
Operating Transfers Out - Affiliates	-	(178,572)
Change In Net Assets	1,829	(193,680)
Net Assets, October 1	75,685	269,365
Net Assets, September 30	<u>\$77,514</u>	<u>\$75,685</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Funds	
	2005	2004
Cash Flows from Investing Activities		
Interest Income	\$1,829	\$1,675
Cash Flows From Capital and Related Financing Activities		
Operating Transfers Out - Abatement, General Fund	-	(16,783)
Operating Transfers Out - Affiliates	-	(178,572)
Net Change in Cash and Cash Equivalents	1,829	(193,680)
Cash and Cash Equivalents, October 1	75,685	269,365
Cash and Cash Equivalents, September 30	<u>\$77,514</u>	<u>\$75,685</u>
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Newaygo County Mental Health Board (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Newaygo County Mental Health Board elected to become a Mental Health Authority effective January 1, 1999.

The Board operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Board arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Newaygo who meet eligibility and other criteria.

As the community mental health services provider for Newaygo County, the Board also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board.

Based on the application of the criteria, the Board does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Board. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Newaygo County Mental Health Board
Notes To Financial Statements

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005 and 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Board that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Michigan Families Fund – The fund accounts for the activities of the Michigan Families program.

Newaygo County Mental Health Board
Notes To Financial Statements

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Board for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Board to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Board's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Newaygo County Mental Health Board
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

Capital Assets

Capital assets, which include equipment, software and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Newaygo County Mental Health Board
Notes To Financial Statements

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Software	3
Vehicles	4
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of compensated absences, retirees health insurance, Michigan Families program, and for the risk reserve liability. These restricted assets are held in separate cash accounts with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Board.

Newaygo County Mental Health Board
Notes To Financial Statements

Deferred Revenue

Deferred revenues arise when the Board receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, The Board incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Newaygo County Mental Health Board
Notes To Financial Statements

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2005	2004
Petty Cash	\$200	\$200
Checking, Savings, And Money Market Accounts	172,875	914,307
Certificates of Deposit	1,373,842	1,154,640
Certificates of Deposit - Restricted	1,336,910	-
Money Market Accounts - Restricted	-	1,436,747
Totals	\$2,883,827	\$3,505,894

The bank balance at year end was \$2,933,287 of which \$293,188 was covered by federal depository insurance and \$2,640,099 was uninsured and uncollateralized. Some of the deposits that exceed FDIC insurance coverage are held at local banks.

The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash and Cash Equivalents

The Board has charged to the Department of Community Health, the vested portion of compensated absences and future expected cost of employees' health insurance as of September 30th. The Board holds, in a separate bank account, funds equal to or greater than these estimated liabilities. The use of these funds is restricted to payment of compensated absences and retiree health insurance premiums as they come due.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract.

The restricted cash shown above represents cash and cash equivalents restricted for the following:

Restricted For:	2005	2004
Compensated Absences	\$145,223	\$141,812
Michigan Families Program	506,627	613,939
Risk Reserve – Internal Service Fund	77,514	75,685
Retirees Health Insurance	607,546	605,311
Total	\$1,336,910	\$1,436,747

Newaygo County Mental Health Board
Notes To Financial Statements

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2005	2004
State of Michigan – OBRA	\$3,135	\$2,116
State of Michigan – Alzheimer’s Program	831	17,934
State of Michigan – DCH, Children’s Model Waiver	15,113	38,638
Newaygo County - Forensics	17,564	18,811
Total	\$36,643	\$77,499

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2005	2004
Insurance	\$54,897	\$58,200
Other	17,946	16,438
Maintenance Agreements	18,819	-
Flex Plan Set Up	8,000	-
Total	\$99,662	\$74,638

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$50,000	-	-	\$50,000
Vehicles	368,543	-	(\$47,410)	321,133
Furniture, Fixtures & Equip.	141,190	-	(13,000)	128,190
Computers and Software	72,558	-	(63,358)	9,200
Sub-total	632,291	-	(123,768)	508,523
Accumulated Depreciation	(453,973)	(\$50,925)	(123,767)	(381,131)
Totals	\$178,318	(\$50,925)	(\$1)	\$127,392

Newaygo County Mental Health Board
Notes To Financial Statements

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2005	2004
5% Carry forward - DCH	\$46,926	\$31,968
Totals	\$46,926	\$31,968

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2005	2004
State Of Michigan – Inpatient/Residential	\$12,380	\$8,585
State Of Michigan – DCH Cost Settlement 9/03	-	3,041
Clinton-Eaton-Ingham – Medicaid	142,412	855,807
State of Michigan – DCH, Forensic Center	2,990	7,305
County of Newaygo	21,965	-
Other	50,591	17,349
Total	\$230,338	\$892,087

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Operating Leases

Newaygo County Mental Health Board has entered into an operating lease for the use of real property with the County of Newaygo. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the liabilities.

Newaygo County Mental Health Board
Notes to Financial Statements

The following is a schedule of the future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

Year Ending September 30 th	Amount
2006	\$32,948
2007	-
2008	-
2009	-
2010	-
Thereafter	-

Long-Term Debt

Compensated Absences

Board policy allows employees to accumulate up to 208 hours of leave time, which is less than or equal to one year of benefits, and to carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2005 and 2004 this liability was \$145,223 and \$141,812, respectively.

Reserves and Designations

A portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses since prepaid expenses do not constitute "available spendable resources."

A portion of the net assets/fund balance at September 30th has been reserved for an amount equal to the balance left to be disbursed for the Michigan Families program.

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

NOTE 4. OTHER INFORMATION.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Post-Employment Benefits Payable

It is the policy of the Board to provide a continuation of health insurance coverage as a fringe benefit for retired employees of the Board (with the exception of the contract agents and part-time employees) who retire from active service in accordance with provisions of the policy. The following are the major provisions of the policy:

- Family continuation riders will not be included. Employees may purchase this coverage at their own expense.
- Full time employees may elect to enroll in employer-provided retiree health coverage provided they meet at least one of the following criteria:
 - Those who retire after attaining age 55 with at least 15 years of full-time service immediately before they retire;
 - Those who retire after attaining age 60 with at least 10 years of full-time service immediately before they retire; and
 - Those who terminate employment with the Agency before attaining age 55 but after completing at least 25 years of full-time service with the Agency. This group can enroll after attaining age 55.
 - Those who terminate employment because of a medical disability before attaining age 55 but after completing at least 15 years of full-time service with the Agency.

Employees may be required to pay a portion of the cost of coverage. The applicable cost is determined as follows:

- If you retire after attaining age 55 with at least 15 years of full-time employment immediately before your retirement, you are required to pay 25% of the cost of the coverage for yourself and spouse until you become eligible for Medicare (Part A or B).
- If you retire after attaining age 60 with at least 10 years of full-time employment immediately before your retirement, you will be required to pay 25% of the cost of the coverage for yourself and your spouse.
- If you leave employment before attaining age 55 but after completing at least 25 years of full-time employment with Employer, you will be required to pay 50% of the cost of coverage for yourself and your spouse. If you elect coverage for any dependent children, you will be required to pay 100% of the cost of their coverage.
- If you leave employment due to a medical disability before attaining age 55 but after completing at least 15 years of full-time employment immediately before you leave employment due to the medical disability, you will be required to pay 100% of the cost of the coverage for yourself, subject to the termination provisions in Section 5 of this policy.

Newaygo County Mental Health Board
Notes to Financial Statements

An actuarial basis is used to determine the amount of the expenditure and to fund the plan. An amount equal to or greater than the current liability (\$607,546) is held in a restricted cash account for the future payment of these benefits.

Additional information about the post-employment health insurance benefits as well as the actuarial report can be obtained by writing to: Newaygo County Mental Health Board, 1049 Newell Street, PO Box 867, White Cloud, MI 49349.

MERS – Defined Benefit Plan

Plan Description

The Board participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Board's payroll for the employees covered by the system for the year ended December 31, 2004 was \$192,820.

The plan provides for normal retirement at age 60 with ten years of service credit. Early retirement is available with a minimum age of 55 with 15 years of service credit reduced by $\frac{1}{2}$ of 1% for each month under age 60 unless "waiver of section 47f" is adopted by the municipality, in which case no reduction would be made. The municipality may limit the waiver to members with 25 or more years of service.

The normal retirement benefit is a monthly pension payable in an amount equal to 2.5% of average final compensation times the years and months of service credit, not to exceed 40 years of service credit. This amount is payable until death or, in case of a disability, until receipt of full social security benefits. Vesting occurs after ten years of plan participation.

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2005, employer contributions to this retirement plan was zero.

For the 2005 fiscal year, employer contributions will be at the rate of 0% of eligible employee wages.

Newaygo County Mental Health Board
Notes to Financial Statements

At December 31, 2004, the assets were more than the pension benefit obligation by \$79,984, determined as follows:

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$941,649
Terminated employees not yet receiving benefits	90,322
Non-vested terminated employees (pending refunds of accumulated member contributions)	766
Current Employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	945,292
Total actuarial accrued liability	1,978,029
Net assets available for benefits at actuarial value (market = \$2,008,866)	2,058,013
Unfunded (over funded) actuarial accrued liability	(\$79,984)
Fiscal Year Beginning	October 1, 2006
Annual Required Contribution (ARC)	\$10,236
Amortization factor used – under-funded liabilities (30 years)	0.058519
Amortization factor used – under-funded liabilities (10 years)	0.119963

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-02	\$1,973,377	\$1,756,637	\$(216,740)	0%
12-31-03	2,018,719	1,907,170	(111,549)	0%
12-31-04	2,058,013	1,978,029	(79,984)	0%

MERS – Defined Contribution Plan

Plan Description

On July 1, 1999, the full time employees of the Board were given the option to convert the defined contribution plan through the Municipal Employees Retirement System to a money purchase retirement plan administered by the ICMA Retirement Corporation. All new employees are automatically enrolled in the money purchase retirement plan.

Newaygo County Mental Health Board
Notes to Financial Statements

Funding Policy

Under this plan, the Board contributes 4% of earnings to the Plan on behalf of each participant. If the participant contributes 3% of their earnings to the Plan, then the Board will contribute an additional 3%, matching the Participant contribution. The Board has no further retirement obligation to any Participant under this plan. The Participant controls the investments of the funds with the ICMA Retirement Corporation.

The vesting schedule for the Agency contributions is dependent on the years of service completed with the Agency and is as follows:

Years Of Service Completed	Percent Vested
Zero	Zero
One	25%
Two	50%
Three	75%
Four Or More	100%

The pension expense for the years ended September 30, 2005 and 2004 was \$158,360 and \$143,497, respectively.

Alternative Social Security Plan

Plan Description

Those full-time employees in the MERS defined benefit plan, or fully participating in the defined contribution plan (i.e. matching 3% of their earnings), are not eligible for current contributions to be deducted for Social Security taxes, not including Medicare. As an alternative, the amount normally deducted for Social Security taxes (excluding Medicare) will be deducted from the employee's pay at a rate of 6.2% on a pre-tax basis. The Board matches this amount. The combined amount will be placed in a 401(a) alternative FICA plan, which is owned and controlled by the employee. This plan is considered an alternative plan to Social Security. Employees are immediately vested in this account, and the account is portable after termination of employment.

Funding Policy

The employee's contribute 6.2% of their wages which is deducted from their pay. The Board matches this amount.

Full-time employees who are not participating in Social Security, who elect to go part-time, will be enrolled in the Social Security system, and have payroll deductions for that purpose. Part-time employees who elect to become full-time, and fully participate in the defined contribution retirement plan, will be enrolled in the FICA alternative 401(a) plan.

Newaygo County Mental Health Board
Notes to Financial Statements

This plan is also administered by the ICMA Retirement Corporation

Additional information about these plans can be obtained at: MERS, 447 N. Canal Road, Lansing, MI 48917; and ICMA Retirement Corporation, 777 N. Capitol Street N.E., Washington, DC, 20002.

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (the Authority) for auto and general liability, property and crime and vehicle physical damage coverage.

The Authority, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Board's limits, all further payments for such loss are the sole obligation of the Board. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Board is the sole obligation of the Board.

Also, the Board authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Managed Care Specialty Services Program (MCSSP) contract.

The MCSSP contract entered into by the Board provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund that is restricted for use only to meet the expected future risk corridor requirements of the MCSSP contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract.

The Board's coverage limit is \$5,000,000 for liability and between \$10,000 to \$100,000,000 for property and crime. The contribution made by the Board to the MMRMA was \$44,041.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Contract	\$1,154,545	\$1,191,492	\$1,150,967	(\$40,525)
Adult Model Waiver	235,000	172,000	171,042	(958)
MI Child	9,100	8,985	9,015	30
Title XX	2,579	2,579	2,579	-
Total State Grants	1,401,224	1,375,056	1,333,603	(41,453)
Federal Grants				
Mental Health Block Grant	20,557	17,985	18,257	272
Alzheimer's Grant	60,450	60,450	60,450	-
PAS / ARR Grant	10,500	12,500	13,590	1,090
Total Federal Grants	91,507	90,935	92,297	1,362
Contributions - Local Units				
County Appropriations	220,000	220,000	220,000	-
Charges for Services				
Medicaid - DCH Contract	5,622,176	5,420,530	5,053,205	(367,325)
Medicaid - Other	109,000	95,000	103,318	8,318
Client and Third Party Pay	38,000	53,300	54,831	1,531
Total Charges for Services	5,769,176	5,568,830	5,211,354	(357,476)
Interest and Rents	44,000	65,000	65,671	671
Other Revenue	298,636	282,754	292,647	9,893
Total Revenues	7,824,543	7,602,575	7,215,572	(387,003)

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final		
Expenditures				
Health & Welfare - Mental Health				
Personnel Expenditures	\$3,945,258	\$3,986,635	\$3,928,420	\$58,215
Operating Expenditures	3,644,424	3,442,644	3,444,590	(1,946)
Capital Outlay	40,000	39,831	-	39,831
Total Expenditures	<u>7,629,682</u>	<u>7,469,110</u>	<u>7,373,010</u>	<u>96,100</u>
Revenues Over (Under) Expenditures	194,861	133,465	(157,438)	(290,903)
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	194,861	133,465	(157,438)	(290,903)
Fund Balance, Beginning Of Year	2,499,899	2,499,899	2,499,899	-
Prior Period Adjustment	-	-	(867)	(867)
Fund Balance, End Of Year	<u>\$2,694,760</u>	<u>\$2,633,364</u>	<u>\$2,341,594</u>	<u>(\$291,770)</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

NEWAYGO COUNTY MENTAL HEALTH BOARD
SUPPORTING OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General	Michigan	2005	2004
	Fund	Families		
Personnel Expenditures				
Salaries And Wages	\$2,902,880	\$59,168	\$2,962,048	\$2,657,843
Fringe Benefits	944,813	21,559	966,372	874,820
Total Personnel Expenditures	<u>\$3,847,693</u>	<u>\$80,727</u>	<u>\$3,928,420</u>	<u>\$3,532,663</u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2005	2004
Operating Expenditures				
Accreditation	\$187	-	\$187	\$8,050
Affiliation Expense	7,691	-	7,691	8,680
Alzheimers Project	64,500	-	64,500	64,502
Board Per Diem	23,430	-	23,430	21,965
Board Lodging, Meals, Travel, Conference	30,906	-	30,906	28,278
Capital Outlay - Under \$5,000	48,516	\$1,069	49,585	69,071
Car Expense	55,511	3,541	59,052	33,911
Computer Enhancements	64,029	2,322	66,351	61,151
Community Hab Waiver	1,073,484	-	1,073,484	1,059,118
Dues and Memberships	10,316	4	10,320	9,742
Empowerment Network	76,472	-	76,472	64,715
General Administration	-	-	-	22,549
Inpatient Care	600,672	9,979	610,651	471,481
Insurance - W/C	37,118	839	37,957	50,221
Legal and Accounting	33,647	-	33,647	17,881
Miscellaneous Person Expense	6,279	4,193	10,472	17,098
Medicaid Capacity Building	121,887	2,177	124,064	134,016
Public Relations	15,831	-	15,831	12,991
Publications	3,017	-	3,017	3,712
Professional Contracts	632,119	-	632,119	437,080
Recruitment	5,668	70	5,738	3,634
Rent	133,610	7,908	141,518	138,275
Repairs and Maintenance	5,598	-	5,598	3,823
Respite	96,456	3,872	100,328	86,992
Supplies	58,378	-	58,378	57,887
Telephone	44,236	1,604	45,840	36,847
Transportation	30,488	-	30,488	49,834
Travel, Meals, Lodging, Conferences, & Training	94,731	2,737	97,468	68,382
Unemployment	3,596	466	4,062	7,670
Utilities	23,910	1,526	25,436	27,266
Totals	\$3,402,283	\$42,307	\$3,444,590	\$3,076,822

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the financial statements of the governmental activities and each major fund of Newaygo County Mental Health Board (the Board) as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Board in a separate letter dated December 13, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 13, 2005



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MANAGEMENT LETTER

MAR 28 2006

LOCAL AUDIT & FINANCE DIV.

Board of Directors
Newaygo County Mental Health Board
White Cloud, Michigan

In planning and performing our audit of the financial statements for Newaygo County Mental Health Board for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 13, 2005 on the financial statements of Newaygo County Mental Health Board.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 13, 2005

Newaygo County Mental Health Board
Management Letter

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Board consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Board to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Basis of Accounting

The financial statements are currently prepared on the modified accrual basis of accounting with the lone exception being the recording of a long-term liability for retiree's health insurance. We recommend that the financial statements be prepared on the full accrual basis of accounting. This would only require one modification, the inclusion of the fixed asset activity on the full accrual basis.

Fixed asset acquisitions would be recorded as an increase to the fixed asset accounts on the balance sheet rather than expenditure. The cost of the fixed assets would be allocated to the periods benefited through the recording of depreciation expense each year. Gains and losses would be recorded upon disposition.